1.3 Executive Summary

The preparation of its Annual Financial Statements, budget and financial plan is essential and critical to ensure that the Nkandla Municipality remains financially viable and that municipal services are provided sustainably, economically and equitably to all communities. By virtue of the fact that the municipality is a small rural municipality which is characterised by only few sources of revenue, grants being the main source, the main focus was undertaken on expenditure review to eliminate noncore and nice-to-have items. This has resulted in savings to the municipality that will be used to fund other operations of the municipality in its 2013/14 Annual Budget and MTREF. Key areas where savings were realized were on Subsistence & Travelling, Entertainment, Printing & Stationery, number of workshops, accommodation, and Consultant fees. The municipality has established the Traffic Management Unit as the first step, but not limited to, in enhancing self-generated revenue. Furthermore, the municipality continues to undertake various public participation initiatives to ensure that the municipality truly involves all citizens in the process of ensuring a ‘people-led -government’.
National Treasury’s MFMA Circular No. 66, 67 and 68 were used to guide the compilation of the 2013/14 Final Budget.

The main challenges experienced during the compilation of the 2013/14 MTREF can be summarised as follows:

- Aging and poorly maintained roads and electricity infrastructure;
- The need to reprioritise projects and expenditure within the existing resource envelope given the cash flow realities and declining cash position of the municipality;
- The increased cost of bulk electricity (due to tariff increases from Eskom), which is placing upward pressure on service tariffs to residents. Continuous high tariff increases are not sustainable - as there will be point where services will no-longer be affordable;
- The need to fill critical vacancies and availability of revenue sources to fund those positions;
- Implementation of future dated capital projects, which results in under-spending or shortage of funds in excess of MIG allocation, that eventually affects our equitable share (that is mainly used to fund the entire operations of the municipality)
- Repairs and maintenance of operating equipment.
- Unavailability of expenditure and procurement plans for 2013/2014 from other municipal departments.
- Unavailability of future years’ capital projects, which results in us leaving the other two future years’ budgets blank.

The following budget principles and guidelines directly informed the compilation of the 2013/14 Budget:

- The 2013/14 Draft Budget priorities and targets, as well as the base line allocations contained in that Draft Budget were adopted as the upper limits for the new baselines for the 2013/14 final budget;
- Intermediate service level standards were used to inform the measurable objectives, targets and backlog eradication goals;
- Tariff and property rate increases should be affordable and should generally not exceed inflation as measured by the CPI, except where there are price increases in the inputs of services that are beyond the control of the municipality, e.g. the cost of bulk electricity. In addition, tariffs need to remain or move towards being cost reflective, and should take into account the need to address infrastructure backlogs;
- There will be no budget allocated to national and provincial funded projects unless the necessary grants to the municipality are reflected in the national and provincial budget and have been gazetted as required by the annual Division of Revenue Act;

In view of the above-mentioned, the following table is a consolidated overview of the proposed 2013/14 Medium-term Revenue and Expenditure Framework:

Table 1 Consolidated Overview of the 2013/14 FINAL BUDGET

	BUDGET YEAR 2013/14	**BUDGET YEAR 2014/15**	**BUDGET YEAR 2015/16**
Total Operating Revenue	142 952 565	156 898 772	202 782 957
Total Operating Expenditure	142 249 503	150 299 090	182 138 107
Surplus/Deficit (*Rounded off*)	**703 062**	**6 599 681**	**20 644 850**

Total operating revenue has grown by 23.04 per cent for the 2013/14 financial year when compared to the 2012/13 Annual Budget, and 39.6 per cent compared to the 2012/2013 Adjusted Budget. Total operating expenditure for the 2013/14 financial year has been appropriated at less value compared to revenue and translates into a R703 062.00 Surplus for 2013/14 budget year while R6.6 and R20.6 million Surpluses is expected for the two respective forecast years. When compared to the 2012/13 Approved Budget, operational expenditure has grown by 34.3 per cent in the 2013/14 budget and by 5.4 and 5.4 per cent for each of the respective outer years of the MTREF.

The capital budget of R41,08 million for 2013/14 is a 58.4 per cent when compared to the 2012/13 Adjustment Budget. The escalation is due to electrification projects to be initiated in the forthcoming financial year as well as the budgeted individual budgeted values for new capital projects. All our capital projects will be funded from Municipal Infrastructure Grant and Electrification Grant over MTREF.

MAYORAL REPORT

2013/14 FINAL BUDGET OVERVIEW

In his budget speech, His Worship, the Honourable Mayor of Nkandla, Councillor AT Ntuli, stated that: The community of Nkandla has been poor since he was afforded an opportunity to be part of it. Some and the majority of community members go to bed without having anything in their stomach.

The council is fully aware that our communities do not trade in livestock but fencing of grazing land will go a long way in ensuring that farming activities are not interrupted by livestock. Our ratepayers made a number of comments in terms of continued outages in town. This happens at a time where we are at loggerheads with each other with regards to huge debts, illegal connections and other irregularities relating to electricity usage. Our communities have responded positively to our initiative and huge amounts have been received by our treasury to date. It is on those bases that we have set aside an amount of R 1.5 million for servicing of aging electricity infrastructure. Although we are struggling in terms of sustainable revenue sources, we have land that is rateable, serviced and unserviced. We project to make about R 6.6 million from the disposal of such land. This will afford our community an opportunity to buy land and develop the area especially the town.

BUDGET BREAK DOWN:

TOTAL BUDGET:

The total budget for 2013/14 is **R142 953 000** which includes our projected Capital and Operational Expenditure. Which is instituted by the following sources of income:

Operational Grants:	R 63 127 000.00
Capital Grants:	R 41 081 000.00
Total Grants:	**R104 208 000.00**
Services which include Electricity & Refuse	R 18 961 000.00
Rates:	R 5 112 000.00
Other income (based on tariffs from Municipal Properties):	R 14 672 000.00
Total Income (*excluding Grants*)	**R 38 745 000.00**

CAPITAL BUDGET

We have allocated R 21 million to the provision of new infrastructure mostly in areas of Amakhosi, i.e. outside the town. Some of these projects are already at the implementation stage and we commit to finalize them on time. We will further use R 20 million to electrify more than 1400 households in Malunga, Bhacane, Qothu, Ndunduzeli, Vumanhlamvu, Ntinini and Mandaba. The community of Nkandla without electricity is being reduced drastically. We are discharging our mandate of providing our community with basic services.

The projects that we are to implement in 2013/14 financial year are as follows:

- **EsiBhudeni Community Hall & Creche Facilities (Ward 7)** **R3 029 207.50**
- **Thalaneni Community Hall & Creche Facility (Ward 4)** **R3 029 208.50**
- **Thaleni to Malunga Gravel Road Rehab. (Ward 3)** **R3 211 050.00**
- **Nsuze/Ngomankulu Pedestrian Bridge (Ward 14)** **R9 386 130.18**
- **Mashushu Link Road Rehab (Ward 11)** **R1 185 458.82**
- **Bangamanzi Mfongosi link Gravel Road Rehab (Ward 8 & 9)** **R3 046 946.00**

The electrification programmes are organized as follows:

Vumanhlamvu ,mandaba, ezintinini Electrification Programme	**R 10 000 000.00**
Mvuntshini, Mndunduzeli, Qothu, Bhacane, Malunga Electrification Programme	**R 10 000 000.00**

The matter of hunger is despite huge and arable land as well as conducive and good weather for agriculture. That is the main reason that the municipality set aside an amount of **R 3 000 000.00 (Three Million) for the Local Economic Development**. Cooperative development, fencing of land for farming and grazing as well other viable business activities in our communities will be implemented. This goes towards creating a conducive environment for our emerging entrepreneurs by skills development, information sharing and start-up funds.

The following programmes are catered for in our operating budget for the benefit of the relevant stakeholders:

Youth Development Program	**R**	**650 000.00**
Gender empowerment	**R**	**280 000.00**
Early Childhood Development	**R**	**250 000.00**
Sports & Recreation	**R**	**750 000.00**
Library	**R**	**425 000.00**
HIV/AIDS	**R**	**300 000.00**
Disaster Management	**R**	**550 000.00**
Cultural Development	**R**	**600 000.00**
Disability	**R**	**400 000.00**
Senior Citizens	**R**	**100 000.00**
Communication & Publications	**R**	**750 000.00**

Our repairs and maintenance which will fund the routine maintenance of municipal structures and facilities including the renewal of existing operational as well as other capital assets is **R 5 464 000.00**

TARIFFS

The inflation rate of 5.6% will apply to all municipal tariffs (based on the current CPIX as gazetted by National Treasury : Circular 67). This includes the following:

Property Rates

Service Charges

Permits

Hiring of Municipal Facilities etc

The main challenges experienced during the compilation of the 2013/14 Budget & IDP can be summarised as follows:

- Aging and poorly maintained roads and electricity infrastructure;
- The need to reprioritise projects and expenditure within the existing resource envelope given the cash flow realities and declining cash position of the municipality;
- The increased cost of bulk electricity (due to tariff increases from Eskom), which is placing upward pressure on service tariffs to residents. Continuous high tariff increases are not sustainable - as there will be point where services will no-longer be affordable;
- The need to fill critical vacancies and availability of revenue sources to fund those positions;
- Implementation of future dated capital projects, which results in under-spending or shortage of funds in excess of MIG allocation, that eventually affects our equitable share (that is mainly used to fund the entire operations of the municipality)
- Repairs and maintenance of operating equipment.
- Unavailability of expenditure and procurement plans for 2013/2014 from other municipal departments.
- Unavailability of future years capital projects, which results in us leaving the other two future year's budgets blank.

During 2012/2013 Financial year, the municipality has established a traffic unit with the intention of not only implementing traffic control measures in the Municipal Roads but as one of the key strategies to enhance own revenue. Although the unit could not commence its intended purpose due to certain inevitable drawbacks and other challenges (financial and operational), but I can firmly stand before this council and assure all members that the undergoing processes testifies the possibility of the unit commencing its operations during 2013/2014 financial year.

The revenue enhancement strategy that is currently being devised will assist the municipality in developing new revenue enhancement mechanisms and also minimising the volume of distribution losses with regards to electricity.

This is a beginning of other comprehensive measures that the municipality is to implement to ensure that by the end of term of the existing Council we can confidently say we have created revenue that can sustain the municipality if grants were taken away.

Resolution

NKANDLA MUNICIPALITY

Postal Address:
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NKANDLA
3855

Physical Address:
Marée Road
Lot 292
NKANDLA

☎ 035-833 2000
Fax: 035-833 0920

30 May 2013

NMC: 77
FINAL ADOPTION OF 2013/2014 BUDGET

Report by the Chief Financial Officer dated 28 May 2013 – Ref: 24/4/11/1 (NMC: 77)
Page 1 of the agenda

The legislation being the Municipal Systems Act and Municipal Finance Management Act requires the municipality to prepare a five-year Integrated Development Plan and Budget to be adopted on yearly basis. The original plan is developed on the inception of the Council with the strategy of that Council. It is therefore on that basis that Nkandla Municipality has prepared its final budget.

The document has been prepared in line with the National Treasury guidelines used when preparing budget. It contains all the sections as per the guide.

Cllr SO Sibiya proposed that the 2013/2014 MTREF Budget be approved and was seconded by Cllr HR Ntombela.

It was thereafter

RESOLVED

(a) That the 2013/2014 MTREF Budget and two outer years 2014/2015 and 2015/2016 respectively be approved. The total amount for the budget in 2013/2014 R131 133 745 and the other two outer years 2014/2015 R138 583 082 and 2015/2016 amounted to R169 789 434.

(b) That the schedule of the tariffs at 5,6% to give effect to the implementation of Municipal Property Rates with effect from 01 July 2013 be approved.

(c) That the ESKOM tariffs subject to approval by NERSA be **Noted.**

(d) That the 2013/2014 MTREF Budget be submitted to National and Provincial Treasury as per the requirements of the MFMA.

(e) That the budget for salary increase be 6.85% and Councillors increase be 5.5%.

ACTING MUNICIPAL MANAGER
PP SIBIYA

30/05/2013
DATE

NKANDLA MUNICIPALITY

(KZN 286)

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Municipal Manager's Quality Certificate 2013/2014 MTREF Budget.

I P.P. SIBIYA, the Acting Municipal Manager of Nkandla Local Municipality, hereby certify that the annual budget and supporting documentation have been prepared in accordance with the Municipal Finance Management Act (Act No. 56 of 2003) and the regulations governing the Integrated Development Plan of the Municipality.

Print Name: PHILANI PHILEMON SIBIYA

Municipal Manager of Nkandla Local Municipality (KZ286)

Signature: ______________

Date: 28/05/2013.

OVERVIEW OF BUDGET ASSUMPTIONS

General inflation outlook and its impact on the municipal activities

There are quite a number of key factors that have been taken into consideration in the compilation of the 2013/14 MTREF and Annual Budget:

- National Government macro-economic targets;
- The general inflationary outlook and the impact on the municipality's residents and businesses;
- The impact of municipal cost drivers;
- The increase in prices for bulk electricity
- Increase in Employee related costs.

Collection rate for revenue services

The base assumption is that tariff and rating increases will increase at a rate slightly higher than CPIX over the forecast period. It is therefore assumed that 5.6%, 5.4% and 5.4% of inflation rates will impact our budget forecast. (In terms of Budget Circular 67)

Salary increases

The Treasury decision regarding provision for salaries/wages increase that should come into operation in July 2013 was CPIX plus 1.25% which is 6.85%.

Impact of national, provincial and local policies

Integration of service delivery between national, provincial and local government is critical to ensure focussed service delivery and in this regard various measures were implemented to align IDPs, provincial and national strategies around priority spatial interventions. In this regard, the following national priorities form the basis of all integration initiatives:

- Creating jobs – The programmes such as Indalo Yethu Project played a major role in aligning the municipal objectives with the National Government ones during 2012/2013 financial year, this being one of them. This programme offered a significant percentage of employment to Nkandla citizens. After the expiration of the Indalo Yethu Term, the municipality opted to extend the provision of such services with the assistance of EPWP Grant.
- Enhancing education and skill development – Local Economic Development and Skills Development Centres were effected to serve this purpose

- Rural development and agriculture – The municipality is currently conducting Local Economic Development Programmes in order to support this objective.
- Fighting crime and corruption.

To achieve these priorities, the above-mentioned integration mechanisms are in place to ensure integrated planning and execution of various development programs. The focus is and will be to strengthen the link between policy priorities and expenditure thereby ensuring the achievement of the national, provincial and local objectives.

OVERVIEW OF BUDGET RELATED-POLICIES

The municipality's budgeting process is guided and governed by relevant legislation, strategies and related policies.

Credit Control and Debt Collection Policy

The credit control and debt collection policy is attached, and it serves as a guideline in the budget planning processes. The indigent policy exist in favour of this policy in order to assure transparency in the all processes involved in the preparation of 2013/14 Annual Budget and MTREF and to ensure that credit control and debt collection efforts are not fruitlessly wasted on these debtors, as most of the indigents within the municipal area are unable to pay for municipal services.

The 2013/14 MTREF has been prepared on the basis of achieving an average debtors' collection rate.

Fixed Asset Management Policy

A proxy for asset consumption can be considered the level of depreciation each asset incurs on an annual basis. Preserving the investment in existing infrastructure is to be considered as a significant strategy in ensuring the future sustainability of infrastructure. The need for asset renewal is still under consideration.

The Fixed Asset Management Policy is therefore considered a strategic guide in ensuring a sustainable approach to asset renewal, repairs and maintenance and is utilised as a guide to the selection and prioritisation of individual capital projects. In addition the policy prescribes the accounting and administrative policies and procedures relating to property, plant and equipment (fixed assets).

Budget Implementation Policy

The budget process is governed by various provisions in the MFMA and is aimed at instilling and establishing an increased level of discipline, responsibility and accountability in the financial management practices of municipalities. To ensure that the municipality continues to deliver on its core mandate and achieves its developmental goals, the mid-year review and adjustment budget process will be utilised to ensure that underperforming functions are identified and funds redirected to performing functions.

Supply Chain Management Policy

The Supply Chain Management Policy was adopted by Council in 2012. This policy became effective from the date of approval and is being utilised to govern the operations of the SCM unit of the municipality.

Cash Management and Investment Policy

The Municipality's Investment Policy aims to ensure that the municipality's surplus cash and investments are adequately managed, especially the funds set aside for the cash backing of certain reserves. The policy details the minimum cash and cash equivalents required at any point in time and introduce time frames to achieve certain benchmarks. Currently the municipality does not have viable investments, due to the fact that it does not have approved revenue enhancement strategies in place. The management is in the process of establishing those strategies (Traffic Unit being one of them) in order to maintain the municipality's financial stability.

Property Rates Policy and Related Sub-Policies.

The municipality's Property Rates and its related policies provide a broad framework within which the Council can determine fair, transparent and affordable charges, in relation to property rates and other services, that can also promote sustainable service delivery. These policies have been approved as a consolidated Property rates policy.

OVERVIEW OF THE ANNUAL BUDGET PROCESS

Section 53 of the MFMA requires the Mayor of the municipality to provide general political guidance in the budget process and the setting of priorities that must guide the preparation of the budget. In addition Chapter 2 of the Municipal Budget and Reporting Regulations states that the Mayor of the municipality must establish a Budget Steering Committee to provide technical assistance to the Mayor in discharging the responsibilities set out in section 53 of the Act.

The Budget Steering Committee consists of the Municipal Manager and senior officials of the municipality meeting under the chairpersonship of the CFO.

The primary aims of the Budget Steering Committee is to ensure:

- ✓ that the process followed to compile the budget complies with legislation and good budget practices;
- ✓ that there is proper alignment between the policy and service delivery priorities set out in the Municipality's IDP and the budget, taking into account the need to protect the financial sustainability of municipality;
- ✓ that the municipality's revenue and tariff setting strategies ensure that the cash resources needed to deliver services are available; and
- ✓ that the various spending priorities of the different municipal departments are properly evaluated and prioritised in the allocation of resources.

Budget Process Overview

- ✓ In terms of section 21 of the MFMA the Mayor is required to table in Council ten months before the start of the new financial year (i.e. September 2012) a time schedule that sets out the process to revise the IDP and prepare the budget.

IDP and Service Delivery and Budget Implementation Plan

- ✓ The municipality's IDP is its principal strategic planning instrument, which directly guides and informs its planning, budget, management and development actions. This framework is rolled out into objectives, key performance indicators and targets for implementation which directly inform the Service Delivery and Budget Implementation Plan (SDBIP).

OPERATING REVENUE FRAMEWORK

For Nkandla municipality to continue improving the quality of services provided to its citizens it needs to generate the required revenue. But in these tough economic times strong revenue management is fundamental to the financial sustainability of every municipality. The reality is that we are faced with development backlogs and poverty, at the same time, we do not have core sources of funding in exception of government Grants. The expenditure required to address these challenges will inevitably always exceed available funding; hence difficult choices have to be made in relation to tariff increases and balancing expenditures against realistically anticipated revenues.

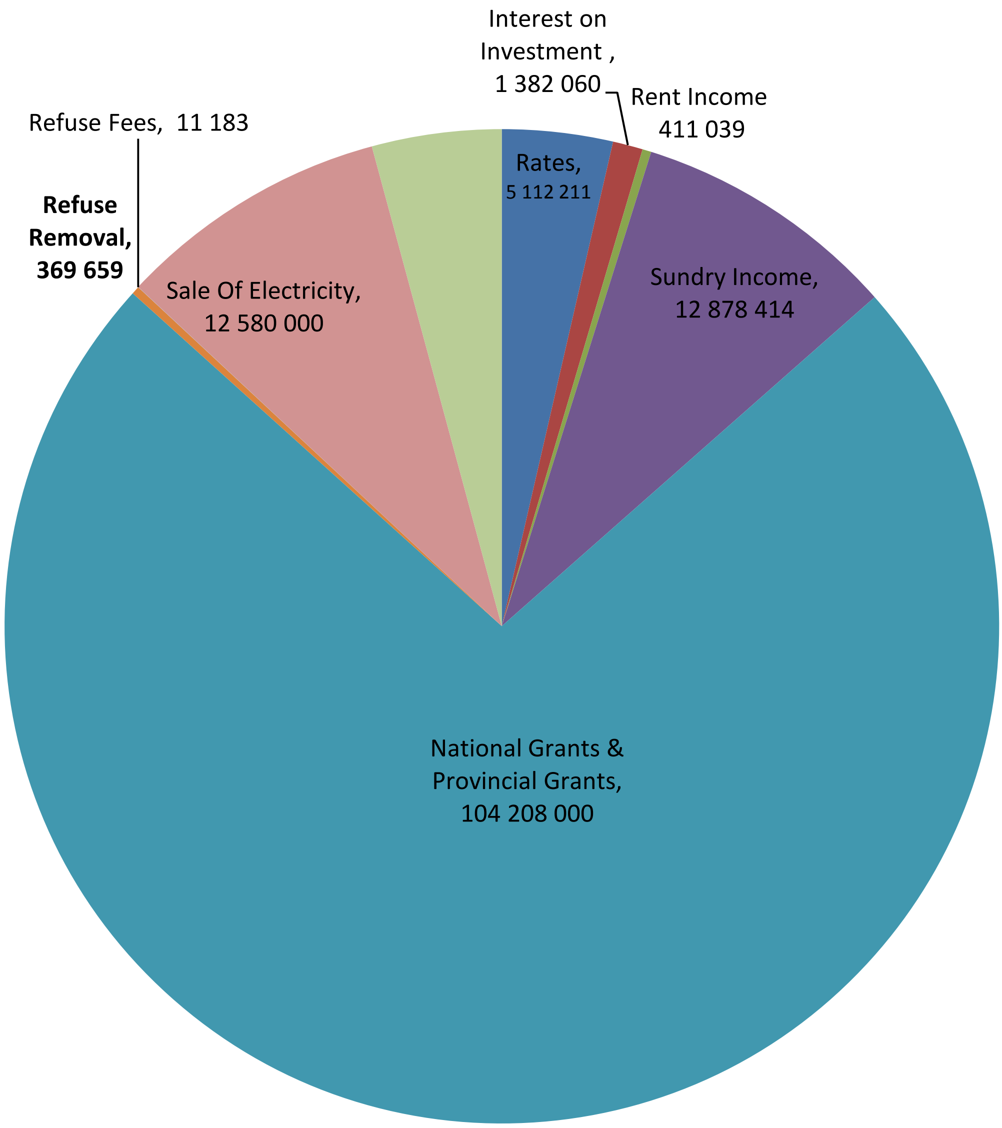
The municipality's revenue strategy is built around the following key components:

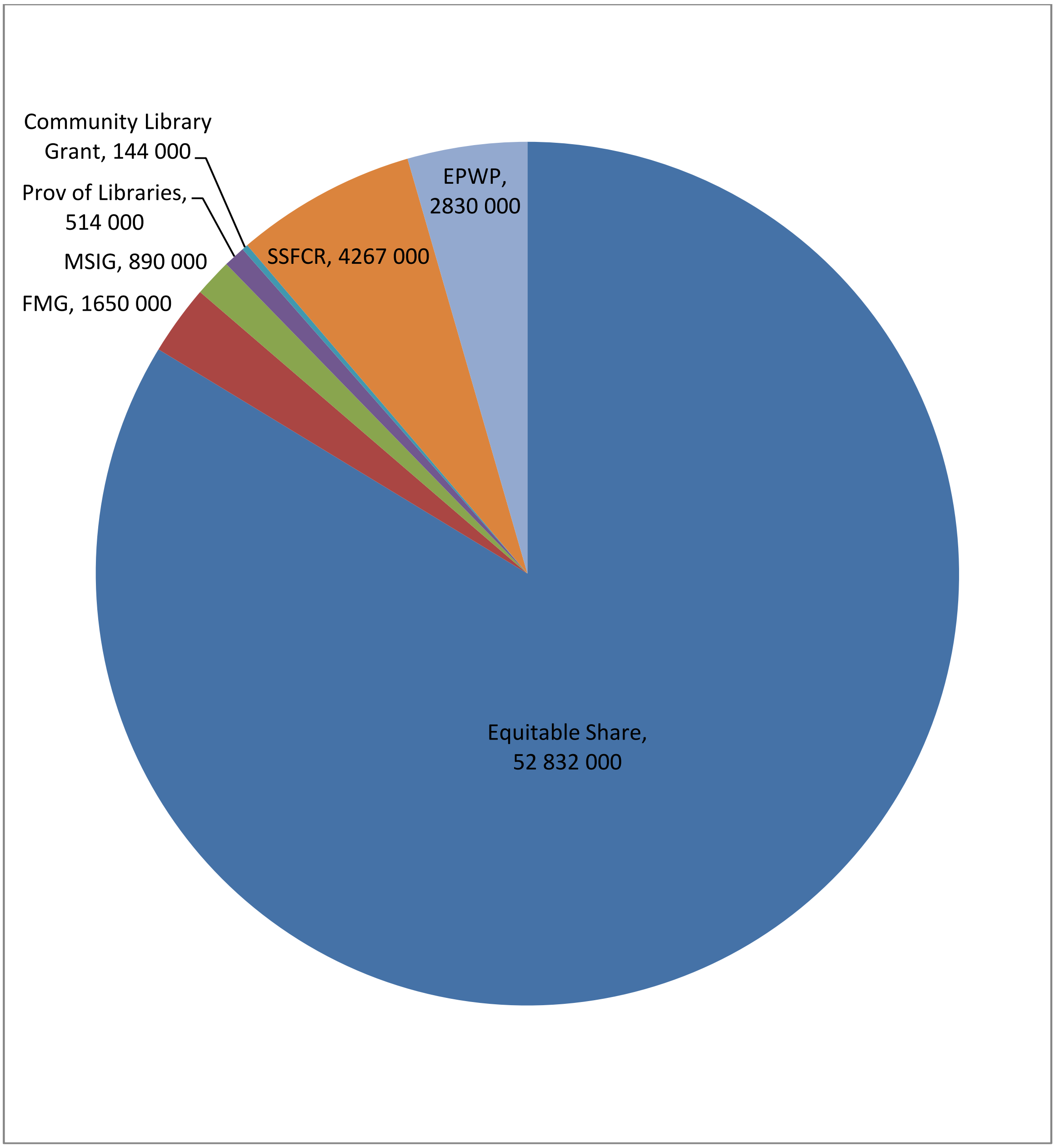
- National Treasury's guidelines and macroeconomic policy;
- Growth in the municipal environment and continued economic development;
- Efficient revenue management, which aims to ensure a reasonable percentage annual collection rate for property rates and other key service charges;
- Electricity tariff increases as approved by the National Electricity Regulator of South Africa (NERSA);
- Achievement of full cost recovery of specific user charges especially in relation to municipal facilities;
- Determining the tariff escalation rate by establishing/calculating the revenue requirement of each service;
- The municipality's Property Rates Policy approved in terms of the Municipal Property Rates Act, 2004 (Act 6 of 2004) (MPRA);
- The municipality's Indigent Policy and rendering of free basic services; and
- Tariff policies of the municipality.
- Revenue enhancement strategy

KZN286 Nkandla - Table A4 Budgeted Financial Performance (revenue and expenditure)

Description	Ref	2009/10	2010/11	2011/12	Current Year 2012/13				2013/14 Medium Term Revenue & Expenditure Framework		
R thousands	1	Audited Outcome	Audited Outcome	Audited Outcome	Original Budget	Adjusted Budget	Full Year Forecast	Pre-audit outcome	Budget Year 2013/14	Budget Year +1 2014/15	Budget Year +2 2015/16
Revenue By Source											
Property rates	2	1 241	1 423	1 600	1 694	1 694	1 694	1 694	5 000	5 270	5 555
Property rates - penalties & collection charges				100	106	106	106	106	112	118	125
Service charges - electricity revenue	2	–	7 087	3 801	7 478	6 931	6 931	6 931	12 580	13 259	13 975
Service charges - refuse revenue	2	358	404	351	369	361	361	361	370	390	411
Service charges - other		416	926	657	1 241	–	–	–	12	18	28
Rental of facilities and equipment		274	341	355	376	374	374	374	411	433	457
Interest earned - external investments		539	1 262	–	–	–	–	–	1 342	1 415	1 491
Licences and permits		–		7	7	8	8	8	7	8	8
Transfers recognised - operational		30 491	46 692	59 899	77 924	42 824	42 824	42 824	63 127	69 467	86 936
Other revenue	2	–	–	1 994	2 124	2 124	2 124	2 124	18 910	19 931	21 008
Gains on disposal of PPE		-	-	-	-	-	-	-	-	-	-
Total Revenue (excluding capital transfers and contributions)		**33 318**	**58 135**	**68 764**	**91 321**	**54 423**	**54 423**	**54 423**	**101 871**	**110 309**	**129 992**

Revenue 2013/2014			
Rates			**5 112 211**
Interest on Investment			**1 382 060**
Rent Income			**411 039**
Sundry Income			**12 878 414**
Refuse Removal Fees			**369 659**
Penalties on Refuse Removal Fees			**11 183**
Sale of electricity - Prepaid			**900 000**
Sale of electricity -conventional			**11 680 000**
OPERATING GRANTS AND SUBSIDIES			
Equitable Share		52 832 000	
Finance Management Grant		1 650 000	
MSIG		890 000	
Provincialization of Libraries		514 000	
Community Library Services Grant		144 000	
Special Support for Councillor Remuneration and Ward Committees		4 267 000	
Expanded Public Works Programme Integrated Grant		2 830 000	
TOTAL OPERATING GRANTS			63 127 000
CAPITAL TRANSFERS - In Respect Of :			
Esibhudeni Community hall & Creche Facility (Ward 7)	1 222 000		
Thalaneni Community Hall & Creche Facility (ward 4)	3 029 208		
Taleni to Malunga Gravel Road Rehabilitation (Ward 3)	3 211 050		
Nsuze / Ngomankulu Pedestrian Bridge (Ward 14)	9 386 130		
Mashushu Link Road Rehabilitation (Ward 11)	1 185 459		
Bangamanzi-Mfongosi Link Gravel Road Rehab. (Ward 6&9)	3 046 946		
Total Municipal Infrastructure grant (MIG)		21 081 000	
Electrification Programme Grant		10 000 000	
Electrification Programme Grant		10 000 000	
TOTAL CAPITAL TRANSFERS			41 081 000
TOTAL REVENUE			**142 952 565**


Interest on Investment , 1 382 060
Rent Income 411 039
Refuse Fees, 11 183
Rates, 5 112 211
Refuse Removal, 369 659
Sale Of Electricity, 12 580 000
Sundry Income, 12 878 414
National Grants & Provincial Grants, 104 208 000


Community Library
Grant, 144 000
Prov of Libraries,
514 000
MSIG, 890 000
FMG, 1650 000
SSFCR, 4267 000
EPWP,
2830 000
Equitable Share,
52 832 000

OPERATING EXPENDITURE FRAMEWORK

The Municipality's expenditure framework for the 2013/14 budget and MTREF is informed by the following:

- The asset renewal strategy and the repairs and maintenance plan;
- Balanced budget constraint (operating expenditure should not exceed operating revenue) unless there are existing uncommitted cash-backed reserves to fund any deficit;
- Nkandla municipality's 2013/14 Annual Budget and MTREF
- Funding of the budget over the medium-term as informed by Section 18 and 19 of the MFMA;

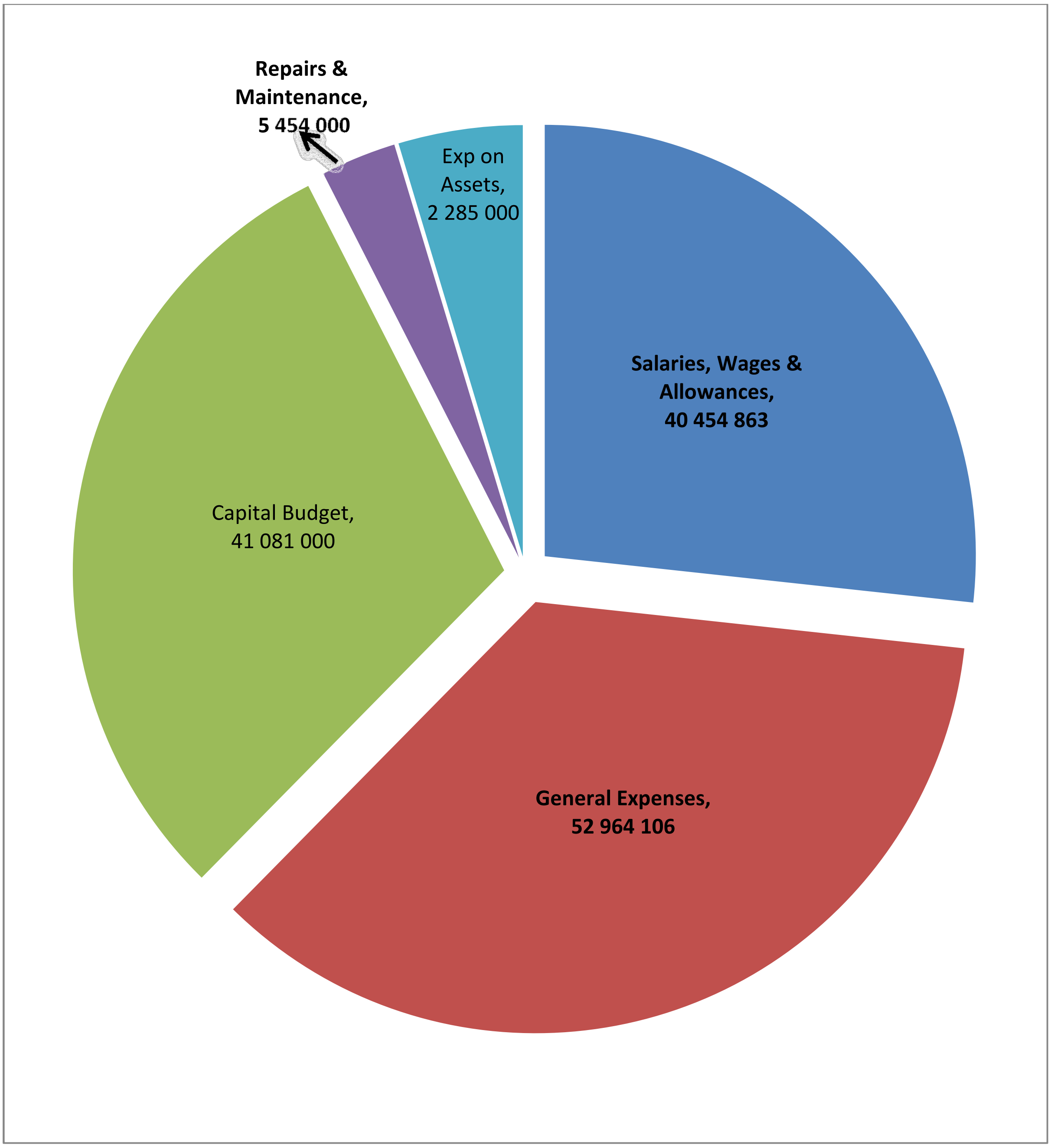
The budgeted allocation for employee related costs for the 2013/14 financial year totals R30, 018 million, which equals 26 per cent of the total operating expenditure. Based on the three year collective SALGBC agreement, salary increases have been factored into this budget at a percentage increase of 8.05 per cent for the 2013/14 financial year. An annual increase of 8.05 per cent has been included in the two outer years of the MTREF. As part of the planning assumptions and interventions all critical vacancies are included in the budget with the aim of exercising more prioritization to them. Expenditure against overtime and S&T was significantly reduced.

The cost associated with the remuneration of councillors is determined by the Minister of Co-operative Governance and Traditional Affairs in accordance with the Remuneration of Public Office Bearers Act, 1998 (Act 20 of 1998).

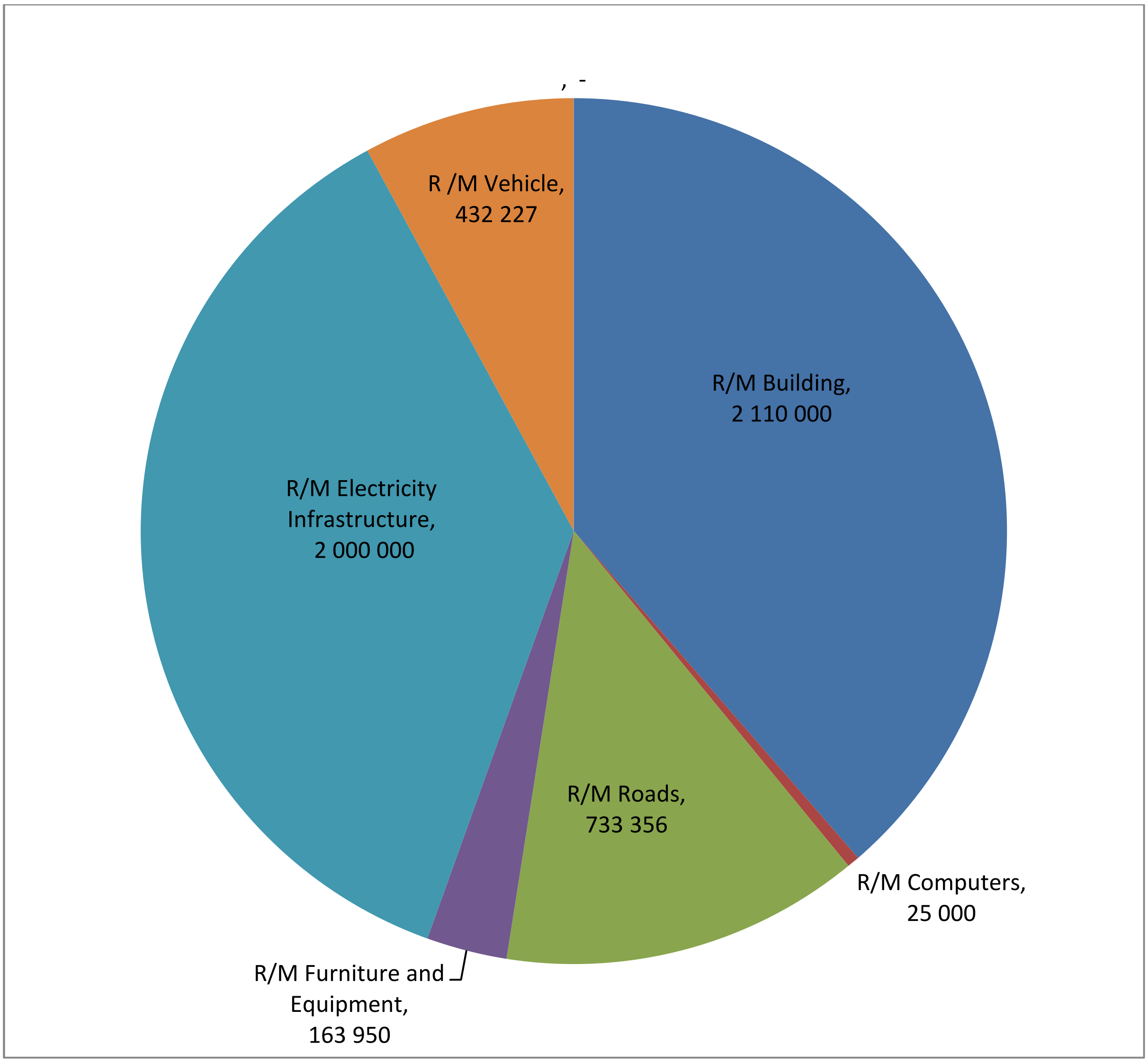
Description	Ref	2009/10	2010/11	2011/12	Current Year 2012/13				2013/14 Medium Term Revenue & Expenditure Framework		
R thousands	1	Audited Outcome	Audited Outcome	Audited Outcome	Original Budget	Adjusted Budget	Full Year Forecast	Pre-audit outcome	Budget Year 2013/14	Budget Year +1 2014/15	Budget Year +2 2015/16
Employee related costs	2	11 211	13 904	15 701	19 294	18 755	18 755	18 755	32 666	34 430	36 289
Remuneration of councillors		4 438	4 881	3 537	6 132	6 401	6 401	6 401	7 789	8 210	8 653
Debt impairment	3	67	–	–	–	–	–	–	–	–	–
Depreciation & asset impairment	2	2 760	2 844	2 322	2 447	2 447	2 447	2 447	2 322	2 448	2 580
Finance charges		318	206	303	321	1 309	1 309	1 309	2 277	2 400	2 529
Bulk purchases	2	404	6 286	6 792	7 209	7 209	7 209	7 209	11 580	12 205	12 864
Other materials	8	837	–	–	–	–	–	–	–	–	–
Contracted services		–	1 807	4 266	4 465	5 615	5 615	5 615	3 824	4 030	4 248
Other expenditure	4, 5	11 808	12 437	21 946	13 403	13 325	–	–	81 791	86 575	114 973
Loss on disposal of PPE		–	–	–	–	–	–	–	–	–	–
Total Expenditure		**31 843**	**42 365**	**54 867**	**53 271**	**55 061**	**41 735**	**41 735**	**142 249**	**150 298**	**182 137**

EXPENDITURE			
Employee Related Costs			40 454 863
General Expenses			52 964 6106
Expenditure on Assets			2 285 000
Capital Projects			41 081 000
REPAIRS AND MAINTENANCE			
R/M Building		2 110 000	
R/M Computers		25 000	
R/M Roads and Stormwater		733 356	
R/M Furniture and Equipment		163 950	
R/M Electricity Infrastructure		2 000 000	
R /M Vehicle		432 227	
Total R&M			5 464 533
TOTAL EXPENDITURE			***142 249 503***

EXPENDITURE CHART



REPAIRS & MAINTENANCE



BUDGET EXPLANATIONS

OPERATING REVENUE

Property Rates

Over a period of time, the municipality has been using the old valuation roll, on which the property rates were based. Recently we have re-valued all properties around Nkandla town and all government properties (i.e. Schools) located within Nkandla. There is a significant change from the current values to the re-valued figures on the valuation roll. Over and above that, the municipality is planning to fully implement the credit control and debt collection policy, which will encompass, among others, the property rates. From the 1st of July 2013, the municipality will be implementing a new valuation roll with new property values. Therefore our projections are based on new property values in conjunction with the approved policy for debt collection and credit control procedure to be adhered to, which in essence resulted in the escalation of the budgeted property rates revenue of about 195%.

Revenue Forgone

Due to the fact that the municipality did not have a proper credit control and debt collection strategy in place for the past years, we could not cater for revenue forgone on property rates in our budget year and other two future years. The determining factor in this regard will be our year-to-date movements for the first six months of our 2013/2014 income and expenditure. Then after that, the council will decide on the basis of revenue forgone, taking into account the debt collection trend.

Service Charges

Refuse

The schedule of tariffs is attached in order to assist in the assessment of the reason behind setting the refuse collection fees below the allowable inflation percentage. Our adjustment in projections is also based on the refuse revenue collection trend for the current year (2012/2013).

Electricity

NERSA's Approved tariffs of 8% are the basis for our electricity revenue increase. The municipality has been under-budgeting in terms of bulk electricity purchase, which is the reason why the budget gets exhausted before the end of financial year. Over and above that, the municipality has lost a huge amount of revenue on electricity due to lack of controls on electricity management, hence the Credit control and Debt collection Policy has been implemented and we aim to fully implement it in the forthcoming financial year (2013/2014). Looking at the current trend in bulk purchase, taking into account the seasonal charges of electricity, the council has decided to top up expected revenue on electricity based on bulk purchases, revenue targets, and NERSA's recommended tariff increase. This is the reason behind the 81% increase in revenue on electricity.

Revenue Forgone

Due to the electricity losses mentioned above, the municipality has been operating on deficit when it comes to electricity, therefore it could not be possible to budget for revenue forgone in the past years and current year. But after the implementation of the control measures stated above, the year-to-date movements during the first six months of the current year will inform the adjusted budget of 2013/2014. That is when the municipality will consider budgeting for revenue forgone.

Other revenue

In the 2012/2013 budget, the municipality did not cater for vat recovery, while in the 2013/2014 budget the municipality is expecting to make a vat recovery of about R11 000 000, which is the reason why there is an increase of 426% in other revenue.

OPERATING EXPENDITURE

Employee Related Costs

The recommended increase in employee related costs is CPIX plus 1.25 per cent, which the municipality has used in its salary increase projections. Quite a number of positions were established which include some for middle level management. This has resulted in a significant increase in employee related costs of about 52.7%.

Senior Managers

In our 2012/2013 budget, there was an error in the budget allocation for senior managers. Therefore we have corrected that error by re-allocating salaries of senior managers in table SA23 which resulted in a 565% increase which is not actually an increase per se, by virtue of that change, there was a decrease in the value of other staff salaries in our budget year compared to 2012/2013 budget, while the personnel number of senior managers in table SA24 did not change.

Bulk Purchase

Over the past and current year, the municipality has been under-budgeting in terms of bulk purchase of electricity, which resulted in overspending on bulk purchase budget. Therefore looking at the trend on current year purchases on electricity, taking into account seasonal charges, the budget year projections in terms of bulk purchases on electricity amounted to R11.6 million which is a 60.6% increase from current year's budget.

Other Expenditure

Finance Charges

The Finance Charges that appears in table A4 relates to Bank Charges, Audit Fees and Insurance fees. We should have classified this expenditure as *other expenditure* in tables A4 and SA1 due to unavailability of additional space but by virtue of that 10% threshold on other expenditure figure.

Contracted services

The value for 2011/2012 contracted services has decreased in the following years. The reason behind such decrease revolves around the exclusion of Professional fees on contracted services, which was incorrectly included there during 2012/2013 budget year. Then there was a little bit high increase in 2013/2014 figure of contracted services due to the approval of R2.6 million budgets on security services and an addition of R350 000 budget on waste management as one of new service to be contracted in 2013/2014.